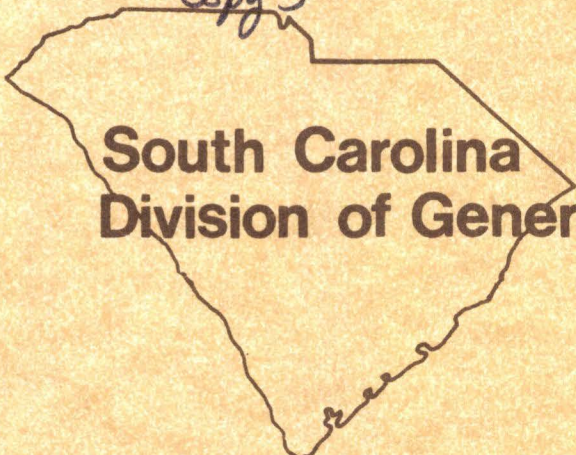


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South Carolina
Division of General Services

PROCUREMENT AUDIT AND CERTIFICATION

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SOUTH CAROLINA ARTS COMMISSION

AGENCY

OCTOBER 1, 1987 - JUNE 30, 1989

DATE

STATE OF SOUTH CAROLINA
State Budget and Control Board
DIVISION OF GENERAL SERVICES



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JAMES J. FORTH, JR.
ASSISTANT DIVISION DIRECTOR

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CHAIRMAN, SENATE FINANCE COMMITTEE

ROBERT N. McLELLAN
CHAIRMAN, WAYS AND MEANS COMMITTEE

JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

November 6, 1989

Mr. Richard W. Kelly
Director
Division of General Services
1201 Main Street, Suite 400
Columbia, South Carolina 29201

Dear Rick:

Attached is the final South Carolina Arts Commission procurement audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the Arts Commission a two (2) year certification as outlined in the report.

Sincerely,

A handwritten signature in dark ink, appearing to read "James J. Forth, Jr." with a stylized flourish at the end.

James J. Forth, Jr.
Assistant Division Director

/jlj

Attachment

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JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

November 1, 1989

Mr. James J. Forth, Jr.
Assistant Division Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

We have examined the procurement policies and procedures of the South Carolina Arts Commission for the period October 1, 1987 - June 30, 1989. As a part of our examination, we made a study and evaluation of the system of internal control over procurement transactions to the extent we considered necessary.

The purpose of such evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and Commission procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures that were necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the South Carolina Arts Commission is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling

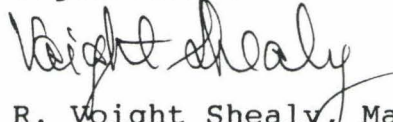
this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions as well as our overall examination of procurement policies and procedures were conducted with due professional care. They would not, however, because of the nature of audit testing, necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report which we believe to be subject to correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place the Arts Commission in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.


R. Voight Shealy, Manager
Audit and Certification

SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the South Carolina Arts Commission and its related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

We selected sixty (60) random samples of expenditure transactions which exceeded \$500.00 and all of the bid solicitations that had been awarded for the period October 1, 1987 through June 30, 1989. We tested these for compliance to the Consolidated Procurement Code and performed other audit procedures that we considered necessary in the circumstances to formulate this opinion. Our review of the system included, but was not limited to, the following areas:

- (1) adherence to applicable laws, regulations and internal policy;
- (2) procurement staff and training;
- (3) adequate audit trails and purchase order registers;
- (4) evidences of competition;
- (5) small purchase provisions and purchase order confirmations;
- (6) emergency and sole source procurements;
- (7) source selections;
- (8) file documentation of procurements;
- (9) disposition of surplus property;
- (10) Minority Business Enterprise Plan.

RESULTS OF EXAMINATION

The Office of Audit and Certification performed an examination of the internal procurement operating procedures and policies and related manual of the South Carolina Arts Commission for the period of October 1, 1987 - June 30, 1989. Our on-site review was conducted July 10 through July 26, 1989, and was made under the authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code.

The Arts Commission has requested in writing to be recertified in the areas of design and printing services up to \$40,000 per contract. This is an increase over the current certification of \$30,000.

Over the audit period, the Commission has maintained what we consider to be an efficient procurement system. We did note, however, the below listed items which should be addressed by management.

I. Compliance - Sole Source Procurements

We examined all the Commission's sole source procurements, the supporting documents and the quarterly reports for the period October 1, 1987 through June 30, 1989. Our purpose was to determine the appropriateness of the procurement actions taken and the accuracy of the reports submitted to the Division of General Services, as required by Section 11-35-2440 of the Consolidated Procurement Code. We categorized the exceptions noted as follows:

A. Unauthorized Sole Source Procurement

A sole source procurement of \$640.00 for cameras was reported on the quarterly report ending March 30, 1988. This procurement was unauthorized because the purchase order was dated February 14, 1988 and the written determination was not prepared until February 28, 1988.

Section 11-35-1560 of the Procurement Code indicates that a procurement may be made as a sole source if it is determined in writing by a chief procurement officer, a head of a governmental body or a designee above the level of the purchasing officer that there is only a single source for the needed supplies or services. The determination must be approved by one of these officials in advance of a commitment being made.

Ratification must be requested from the Executive Director of the Arts Commission in accordance with Regulation 19-445.2015.

B. Inappropriate Sole Source Procurements

The following procurements were inadequately justified as sole sources based on the supporting written determinations and findings. They should not have been made as sole sources.

<u>Item</u>	<u>P.O.#</u>	<u>Amount</u>	<u>Date</u>	<u>Description</u>
1	80468	\$ 1,026.50	3/88	Travel services
2	80528	1,133.00	3/88	Travel services
3	80688	2,047.50	6/88	Food catering
4	80755	761.25	6/88	Printing brochure
5	90013	1,200.00	6/88	Video services
6	90486	816.71	12/88	Printing services

A sole source determination should adequately explain why an item is one of a kind and the reason for restricting the procurement to one vendor. In cases of reasonable doubt competition should be solicited.

C. Invalid Sole Source Determination

A procurement for software modification on purchase order #80237 was dated October 7, 1987. This transaction was supported by a written determination dated December 26, 1986. The Commission felt that since this vendor had made previous modifications to the software the prior determination was still valid. This was not the case because the determination did not address the new procurement. Each transaction must be supported by a current written determination. If a blanket determination is prepared, it must specify the period of coverage.

D. Unnecessary Reporting

The Commission advertised art work in a national magazine at a cost of \$4,000.00. The procurement was reported as a sole source. The Budget and Control Board exempted advertisements in professional journals on April 22, 1986. The Commission should file an amended report for fiscal year 1988/89 and report only true sole source procurements in the future.

II. Compliance - Goods and Services, Consultants and Information Technology

Our examination of procurement activity at the Commission included a test of sixty (60) randomly selected transactions from the period October 1, 1987 through June 30, 1989. Four of these procurements as indicated below, were not made in compliance with the Consolidated Procurement Code and its ensuing regulations.

<u>Item</u>	<u>P.O.#</u>	<u>Amount</u>	<u>Item/Service Description</u>
1	90624	\$2,499.00	Printing brochures
2	80784	1,747.50	Catering services
3	80565	1,215.68	Catering rural conference

4 90511 1,785.61 Printing brochures

Item 1 was supported by informal quotations. However, it was invoiced at \$2,755.00, an increase of approximately ten percent (10%) plus tax over the initial amount of the purchase order. This increase is a standard industry allowance when providing printing services to allow for overruns. The Commission should have recognized this fact and used the competitive sealed bid methodology when making the solicitation.

Item 2 was an unauthorized procurement because the service was provided on April 12, and the purchase order was not dated until June 2, 1988. A purchase order should be issued when the procurement action occurs, and if this is not possible a confirmation number should be used. Since this did not occur, the procurement must be submitted to the Director of the Commission for ratification accordance with Regulation 19-445.2015.

Item 3 was a procurement of conference facilities from another state agency. The Commission failed to seek competition, prepare a sole source determination or execute form MMO #136, "Contract Between Agencies", and submit it to the Materials Management Office along with a cost justification for approval. All future contracts with other state agencies must be either competed, determined to be sole sources or processed in accordance with Section 11-35-4830.

Item 4, which was ordered at \$1,785.61, was invoiced at \$3,168.27. This exceeded the industry standard overrun of ten percent for printing requirements. This was caused by the initial contract being modified several times adding in-house changes

which were not approved through the purchasing department. We realize that printing needs in some cases are estimated. However, a contract which ends up at almost twice the amount of the original purchase order should be considered as a weakness in internal controls and should be corrected. Additionally, this contract exceeded the twenty-five hundred dollar threshold and competitive sealed bids should have been solicited.

We recommend the Commission adhere to its internal policies and procedures of centralizing all procurement commitments, solicitations, and contract modifications with the procurement office.

III. Review of Competitive Sealed Bids

In addition to testing sixty randomly selected transactions, we reviewed all the formal competitive sealed bid invitations processed by the Commission since receiving procurement certification. We noted the following exceptions and/or weaknesses.

- 1) Bid number B-90004 for quick-copy service was awarded in the amount of two thousand dollars. This contract was amended three times, increasing the initial award by two thousand, fifteen hundred, and twelve hundred dollars respectively over several months.

We recommend in the future, the Commission issue new solicitations for additional requirements so as to maximize its purchasing dollar.

- 2) Bid number B-90006 for printing services was awarded to the low bidder based on the vendors signed written quotation. The quotation should not have been accepted by the Commission as a valid bid since the vendor failed to affix his signature to the invitation to bid (I.F.B.) as solicited and by not doing so was not required to abide by the terms and conditions.

The Commission should not accept written quotations from a vendor when the formal sealed bid methodology has been used to solicit prices, regardless of the amount of the final award.

- 3) The Commission should expand its bid abstract sheet to include space for calculating vendor preferences, discounts, etc. Also, all bids should be date stamped when opened and the bid abstract sheet initialed by the person reading the bids and by a witness.

CERTIFICATION RECOMMENDATIONS

As enumerated in our transmittal letter, corrective action based on the recommendations described in the findings contained in the body of this report, we believe, will in all material respects place the Arts Commission in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations. We are somewhat concerned about the number of exceptions in procurements managed by the Commission under its certification. The frequency of errors is too high considering the limited number of transactions.

Prior to November 30, 1989, the Office of Audit and Certification will perform a follow-up review in accordance with Section 11-35-1230(1) of the Procurement Code to determine if the proposed corrective action has been taken by the Arts Commission. Based on the follow-up review, and subject to this corrective action we will recommend that the South Carolina Arts Commission be certified to make direct agency procurements for a period of two (2) years up to the following limit:

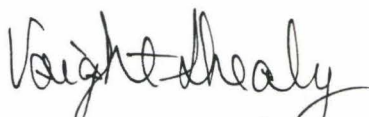
PROCUREMENT AREAS

RECOMMENDED CERTIFICATION LIMITS

Design and Printing Services

\$40,000 *per purchase commitment

*The total potential commitment to the State whether single year or multi-term contracts are used.


R. Voight Shealy, Manager
Audit and Certification

October 23, 1989

Mr. R. Voight Shealy
Manager of Audit and Certification
Division of General Services
1201 Main Street - Suite 600
Columbia, South Carolina 29201

Dear Mr. Shealy:

We appreciate the thoroughness with which Jeff Widdowson conducted our Procurement Audit and are very pleased that the audit covered everything up to FY:90. Jeff offered several helpful administrative suggestions, all of which have been placed into effect this fiscal year.

The following responds to your "Results of Examination" draft. It's my understanding that minor clerical errors have been discussed by phone between our two offices so this response does not address those:

1. Unauthorized Sole Source Procurement.

- A. Concur. This transaction represents an oversight in our internal editing process rather than a lack of understanding of the Code. Also, in the past, the Sole Source Authorization form was presented for approval exclusive of the Purchase Requisition. In March 1989, this procedure was changed to require the Purchase Requisition to be submitted along with the Sole Source Authorization form. Further, any discrepancy between the dates as cited in the audit will be treated as an unauthorized procurement and handled in accordance with Permanent Regulation 19-445.2015.
- B. Concur. As of March 1989, whenever doubt exists as to the purchase being a true sole source, the agency seeks competition.
- C. Concur. This has been corrected in the current fiscal year with a new justification.
- D. Concur. An amended report has already been filed.

II. Compliance - Goods and Services, Consultants and Information Technology.

Concur with Items 1, 2, 3 and 4. (Please see comments in the last paragraph.)

III. Review of Competitive Sealed Bids.

- 1) Concur. The present policy of the agency is to modify a contract when the additional quantity is ten percent or less and to advertise the additional quantity if over that amount. This procedure is not set in concrete and each procurement is judged on its own merits. Generally, low dollar contracts (\$3,000 - \$5,000) will be modified, while larger contracts (\$30,000 - \$40,000) will not. As part of this decision, the cost to re-advertise the new quantity is compared against a fair and reasonable price for the modified quantity.
- 2) Non-concur. Although the supporting paperwork appeared that the agency accepted the vendor's quotation, the fact is that the agency never accepts another's Terms and Conditions. The vendor's quote form seen by the auditor in our contract file was placed there erroneously. The quote was asked for by one of the staff but was never considered in the award. To preclude this from happening again, the agency began in FY:90 using its own Quote form for purchases between \$1,500.00 and \$2,499.99. A copy of this form is attached.
- 3) Concur. The Abstract of Bids has been expanded to include all of the recommendations made in the audit. A copy is attached.

The agency has been moving toward a consolidated procurement function for the past twelve months, and it should be noted that many of the discrepancies mentioned in the audit occurred between twelve and eighteen months ago. Beginning in FY:89, the agency instituted an all-staff procurement education program and centralized all purchasing in FY:90. Except for some administrative error, exceptions of the type as noted in the audit should not recur.

Sincerely,



Scott Sanders
Executive Director

2 enclosures

1. Copy of Agency Quote Form
2. Copy of Agency Abstract of Bids

STATE OF SOUTH CAROLINA
State Budget and Control Board
DIVISION OF GENERAL SERVICES



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JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

November 1, 1989

Mr. James J. Forth, Jr.
Assistant Division Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Jim:

We have returned to the South Carolina Arts Commission to determine the progress made toward implementing the recommendations in our audit report covering the period of October 1, 1987 - June 30, 1989. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

We observed that the Arts Commission has made substantial progress toward correcting the problem areas found and improving the internal controls over the procurement system. With the changes made, the system's internal controls should be adequate to ensure that procurements are handled in compliance with the Consolidated Procurement Code and ensuing regulations.

We, therefore, recommend that the certification limits as outlined in the audit report be granted for a period of two (2) years.

Sincerely,

A handwritten signature in cursive script, reading "R. Voight Shealy".

R. Voight Shealy, Manager
Audit and Certification

/jllj

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